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September 7, 2012

<u>Via ECFS</u>

Marlene Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: American Cable Association ("ACA"), *Ex Parte*: In the Matter of Connect America Fund, WC Docket No. 10-90, High-Cost Universal Service Support, WC Docket No. 05-337

Dear Ms. Dortch:

On July 27, 2012, the National Association of State Utility Consumer Advocates ("NASUCA") submitted an *ex parte* letter in response to the comments filed by other parties, including ACA, on the Commission's development of a cost model to award Connect America Fund (CAF) Phase II support in areas served by price cap carriers.[1] In this filing, ACA responds to comments made and issues raised by NASUCA.

I. NASUCA Submission: "The FCC should not adopt the American Cable Association's ("ACA") recommendation that the cost benchmark should be set at the incremental average per unit ("ARPU") that a local exchange carrier ("LEC") will realize from extending their digital subscriber line ("DSL") networks to non-broadband customers. This recommendation is based on the fact that model does not determine the incremental cost of providing broadband service, given existing facilities. Instead, the model is estimating the total forward- looking cost of a network that can provide both narrow-band and broadband services."[2]

[1] *See Ex Parte* from Charles Acquard, Executive Director, NASUCA to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket Nos. 10-90 and 05-337 (July 27, 2012) ("NASUCA *Ex Parte*").

[2] *Id.* at 1-2.

> <u>ACA Response</u>: NASUCA is incorrect on two counts. First, while NASUCA is correct that the model estimates "the total forward-looking cost of a network," this only holds if the model is set to run as greenfield. ACA specifically recommends in its comments[3] that the model be run as brownfield, because when this option is chosen, the model estimates the incremental cost, not the total cost, of providing broadband service given existing facilities.
>
> Second, NASUCA is incorrect in stating that the model estimates the "cost of a network that can provide both narrow-band and broadband services." Although the FCC provides that the CAF will support both broadband and VoIP services and that CAF recipients are required to provide access to voice services, the ABC Coalition model explicitly does not include the incremental costs associated with VoIP. The ABC Coalition submits that, "The supported broadband service must provide access to voice service, but voice service is not supported by the CAF and CAF recipients are not required to offer voice service."[4] Also, in the ABC Coalition's description of the capital expenditure assumptions, they specifically note that "No Voice Gateway is installed."[5]

II. NASUCA Submission: "ACA assumes that 90 percent of the customers will be broadband customers. This assumption is based on the 90 percent number used in Cost Quest Associates Broadband Analysis Tool ("CQBAT"). ACA, however, is misinterpreting the CQBAT 90 percent number. It is not a broadband penetration assumption. Instead, it is used to determine the number of Census households that the model will serve and where broadband services are available. That is, the model will build cable to and place drops and interface devices to 90 percent of the houses in each Census block."[6]

> <u>ACA Response</u>: NASUCA is incorrect that ACA misinterprets the CQBAT 90 percent number. This number is a broadband penetration assumption. As the ABC Coalition notes in its original filing, "Cost estimates presume that supported networks would need to offer capacity sufficient to enable broadband service to all service locations in areas qualifying for CAF support, while it was assumed that 90 percent

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3 *See* Comments of the American Cable Association on Public Notice DA 12-911, Model Design and Data Inputs For Phase II of the Connect America Fund, WC Docket Nos. 10-90 and 05-337 at 11-15 (July 9, 2012).

4 *See* ABC Coalition *Ex Parte*, WC Docket Nos. 10-90 et al., Attachment 1 at 3 (July 29, 2011) ("ABC Coalition *Ex Parte*").

5 *Id.*, Attachment 3 at 10.

6 NASUCA *Ex Parte* at 2.

would be active customers."[7] It is important to note the distinction here between "all service locations" and "active customers." "Service locations" refers to all eligible locations regardless of whether they are assumed to subscribe to broadband, while "active customers" refers to the number of eligible locations that are assumed to subscribe to broadband – that is, the broadband penetration assumption. The 90 percent penetration number does not, as NASUCA claims, have any impact on the number of houses to which the model will build cable, because penetration has no impact on the geographical dimensioning of the network. This is an accurate reflection of how carriers build out networks; they extend cable past all homes but only build drops, install NIDs, and provide customer premise equipment to subscribing customers.

In the capital expenditure input set for the CQBAT model, CostQuest Associates makes distinctions between those elements of the network that are costed based on "locations" and those costed based on "subscribers" ("locations" multiplied by 90 percent). Elements of the network where costs are driven by the number of subscribers include: the number of DSL ports required to serve 90 percent of eligible locations, the number of units of customer premise equipment required to serve 90 percent of eligible locations, the number of NIDs needed to serve 90 percent of eligible locations, and the cost of drops to serve 90 percent of eligible locations. The cost of DSL ports, CPE units, and NIDs do not vary based on their geographical location. While the cost of a drop varies depending on the geographical location, the model arrives at the cost of drops by calculating the cost for building drops to 100 percent of locations and then multiplying that total cost by 90 percent.

III. NASUCA Submission: "The Consumer Advocates recommend again that the FCC adopt the principles stated in the State Joint Board members' plan that universal service payments should not allow a carrier to earn more than a just and reasonable rate of return."[8]

<u>ACA Response</u>: ACA agrees with this recommendation. As ACA demonstrated in its previous filing, the rate of return provided by the CQBAT is above the price cap carriers' actual weighted average cost of capital, suggesting that the return provided by the model is more than sufficient to induce carriers to accept the funding.[9] It is up to

7 ABC Coalition *Ex Parte*, Attachment 2 at 1.

8 NASUCA *Ex Parte* at 2.

9 *See* Reply Comments of the American Cable Association on Public Notice DA 12-911, Model Design and Data Inputs For Phase II of the Connect America Fund, WC Docket Nos. 10-90 and 05-337, Appendix II (July 23, 2012).

the FCC to decide whether the additional return provided by the CQBAT is necessary to induce carriers to accept funding or is excessive given their actual rate of return and unnecessary to induce carriers to accept funding.

This letter is being filed electronically pursuant to section 1.1206 of the Commission's rules.

Sincerely,

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